

CHFA Capital Plan Property Assessment - Fairway Acres

Property Identification

Fairway Acres
MONROE, CT

CHFA Property Identification #: 86005D
Current State Sponsored Housing Program: SH Elderly

This is a single, stand-alone property. As there are no other adjacent properties under common ownership, there are no opportunities for consolidation to achieve greater efficiencies of scale.

Total Current Unit Count: 30
Census Tract: 1003.00
Connecticut Congressional District: 4

Property Description

Tenancy Type: Elderly/Disabled
Structure Type: Low rise (1-4 floors)
Number of buildings: 8
Maximum # of Stories: 1
Elevator? None

Summary property description:

The Fairway Acres property has 20 efficiency or studio and 10 one-bedroom units. Generally, the property consists of reasonably sized units. It features amenities such as common laundry, a community room, and outdoor picnic benches.

Current Operating & Capital Needs Status

Aggregate Capital Needs
(without market enhancements): \$ 1,644,656

Capital Needs per Unit: \$ 54,822

Projected Year 1 (2014) Operating Income: \$ 21,934

Current operations at the property are projected to generate roughly \$21,900 in net operating income (NOI, or revenue after operating expenses) in Year 1 (2014). With incomes and expenses trending at 2% and 3% respectively, which is a standard affordable housing industry convention, the NOI figure decreases annually and results in negative NOI beginning in 2029. As a result, the property is not sustainable and cannot adequately address its future basic capital needs, projected to be approximately \$1.64 million (\$54,821 per unit) over the next 20 years.

Owner Comments to Property Assessment:

CNA Comments:

-Map of property shows wrong location and the buildings were occupied in 1986, not 1985. Windows have not been replaced, just glass in double pane windows that needed to be replaced, which window hardware has also been replaced as needed. Cleaning the vinyl siding is shown for mid-to-late plan, as the property was in dire need of powerwashing and it has recently been completed. The FACP are kept up to date as much as possible each year, short of a revamping of the entire system. All bathrooms have GFCI outlets, which is shown to be needed in year 1. The GFCI are located in the breaker box.

RECAP Response: The comment period for issues related to the CNAs occurred when the draft CNAs were distributed to the person designated by the owner to review the CNA several months ago, so we are not able to revise CNAs at this time. However, given that the CNA impacts the property analysis, Recap has included the owner comments regarding the CNA to the property assessment so their concerns will be noted.

Revenue Adjustments Prior to a Recapitalization Transaction

Fairway Acres, continued

Current average income relative to
the Area Median Income (AMI): 24%

	Current Base Rent	Affordability (% AMI)
Studio/efficiency unit:	370	24%
One-bedroom unit:	380	23%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

	Proposed Base Rent	Affordability (% AMI)
Studio/efficiency unit:	370	24%
One-bedroom unit:	380	23%
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

The Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction. Consequently, the Capital Plan does not recommend a specific revenue adjustment. The owner should note, however, that the rental income is not projected to meet the property's expenses over the next 20 years and may struggle to cover future capital needs. The owner may want to consider an adjustment in the property's base rent in order to avoid future budget problems.

Number of current households that would be
impacted by the proposed increase in Base Rent: n/a

Rental operating subsidy necessary in 2014 to
generate revenue equal to raising the base rent
as proposed: n/a

Additional rental assistance payments subsidy
over a 20 year period due to revised base rent: n/a

Revenue Adjustments Concurrent with a Recapitalization Transaction

Fairway Acres, continued

Household Income Level	Current Income Mix	Proposed Income Mix
0-25% of AMI	19	19
25-50% of AMI	11	11
50% of AMI or greater	0	0
Total number of units	30	30

Since the Capital Plan is recommending that the property continue operating as it is currently structured, without a consolidated recapitalization transaction, the analysis does not assume any changes to the property's income mix.

	Pre-Trans. Base Rent	Post-Trans. Base Rent
Studio/efficiency unit:	370	370
One-bedroom unit:	380	380
Two-bedroom unit:		
Three-bedroom unit:		
Four-bedroom unit:		
Five-bedroom unit:		
Six-bedroom unit:		

Rental operating subsidy in the transaction year
which would be necessary to generate additional
revenue equal to that generated by income
mixing: n/a

Additional rental operating subsidy necessary to
sustain Rental Assistance Payments based on
the adjusted base rent: n/a

Property used for market reference: Stern Village

	Capital Surplus or (Gap)	Total (Gap) Funded by Subsidy inc. Capital & Operating
Current Scenario (excluding transaction costs):	(1,201,248)	(1,218,477)
Recoverable Grant Scenario:	(2,544,968)	(2,778,986)
CHFA/FHA Scenario:	(2,474,677)	(2,969,198)
4% LIHTC Scenario:	(1,955,514)	(2,407,628)
9% LIHTC Scenario:	(824,037)	(1,274,826)

The Capital Plan analysis considers five scenarios and the prospect under each scenario to address the property's capital and operational needs. Each scenario's capacity to address the property's capital needs is listed to the left, as represented by the Replacement Reserve (RM&R) balance at the end of 20 years. Also at left is the total gap, including both operating subsidy needs and capital subsidy needs, over the 20 year study period.

- The first scenario, the "Current Scenario" assumes the property continues operating as it currently is operated - no material change in the base rent and no implementation of income mixing strategies to shift the property's revenue picture. Consequently, there is no adverse impact on residents or on the opportunity to serve the income demographic currently holding tenancies. The current scenario uses the baseline capital needs as the anticipated capital investment for purposes of identifying the surplus or gap. However, the current scenario - unlike the other four scenarios - does not include any allowance for soft costs (architecture or design, relocation, developer overhead, etc.) or for general contractor overhead and profit (as it is assumed each trade would come to the site independently, without the need for overarching coordination).

- The second scenario, the "Recoverable Grant Scenario" assumes any revenue adjustments described above (i.e., if the analysis suggested an increase in base rent and/or introduction of a mixed-income framework, or the equivalent revenue from federal or state operating subsidy). The Recoverable Grant Scenario envisions a streamlined allocation of funds from the State to the property, implemented with standardized documents and minimal legal or due diligence transaction costs. The Recoverable Grant would be repaid to the State to the extent possible from cash flow. The Recoverable Grant Scenario is most frequently selected when the transaction is too small to warrant the transaction costs associated with alternative financing or if the market is too weak to support debt or equity leverage.

- The three remaining scenarios - "CHFA/FHA," "4% LIHTC" and "9% LIHTC" correspond to three different leverage transaction structures. Each scenario includes transaction costs appropriate to the nature of the transaction. (For example, legal fees in the two LIHTC scenarios are higher than in the CHFA/FHA scenario.) Typically, the CHFA/FHA scenario would generate the least amount of funds for capital improvements and the 9% LIHTC scenario would generate the greatest amount, with the 4% LIHTC scenario falling in between. The CHFA/FHA scenario is a debt-only scenario, using either CHFA or FHA-insured financing. The two LIHTC scenarios assume both debt and a syndication of low income housing tax credits. The 4% tax credits rely on the use of tax exempt bond financing and are generally available when needed. (The analysis assumes that the tax exempt bonds will be used for construction funding in order to generate the tax credits, but may not remain outstanding at the full amount after permanent debt conversion.) The 9% tax credits are a competitive and scarce resource so cannot be assumed to be available for all properties.

Recommended Transaction and Transaction Assumptions

Fairway Acres, continued

Recommended Transaction Option:	Current	The Capital Plan is recommending that the property continue operating as it is currently structured (i.e., the current scenario described above), as this approach requires the least amount of subsidy from the State over time as compared to the other capital leverage transactions. In the absence of a consolidated recapitalization transaction, however, the property will need additional resources on a continuing basis.
Recommended Transaction Year	n/a	The Capital Plan recommends that the property receive annual grants as needed to cover the gap between the property's capital need budget and the property's ability to pay those costs. These grants, identified as "Pre-Transaction Subsidy" (since no consolidated transaction is proposed), would total \$1,201,248 over the course of the next 20 years.
Replacement Reserve Deposit PUPY:	200	
Debt Service Coverage in Transaction Year:	-	
Debt Service Coverage in Transaction Year 15:	-	At this time, the "Current Scenario" is the only approach which reasonably covers the property's capital needs given the current programmatic assumptions. However, it is neither a sustainable nor an efficient strategy as it requires the State to have a much more active role in supervising both capital and operating budgets. This level of oversight would correspond to a higher degree of accountability by the owner to the State.
Pre-Transaction Capital Subsidy Needed:	1,201,248	
Transaction Capital Subsidy Needed:	-	The "Current Scenario" would also require the property to self-manage improvements as they become necessary - the budget does not anticipate the availability of a general contractor. In other words, the property management staff would bring in the specific tradespeople as necessary to repair or replace the components as they fail. Since this is consistent with current property management practices, this burden should be manageable for the owner.

Summary of Recommended Transaction

This property has a stable operating income and expense foundation and needs little or no additional operating support. Under the Current scenario, the property yields \$21,934 in NOI in the current year, which includes \$200 per unit per year in replacement reserve deposits, trending to \$1,346 fifteen years thereafter. The transaction results in a capital subsidy need of \$1,201,000 and \$17,000 in operating deficit subsidy, all of which would need to be covered by State capital subsidy. Given that the "Current Scenario" assumes a heavy dependence on state subsidy on an ongoing annual basis, any cash flow should presumably be escrowed to offset future subsidy need or to repay the state for prior subsidy payments.

Summary of Capital Needs & State Subsidy Needs

Fairway Acres, continued

Immediate Emergency Capital Needs: 0
 Current Deferred Capital Needs: 14,000
 Current Routine Capital Needs: 102,195

The chart below indicates the year-by-year capital investment needs at the property as projected by On-Site Insight. One should note, however, that On-Site Insight used a state-wide cost basis generated from the RS Means database for capital needs. Some high-cost communities can experience a premium of 10%-15% in excess of the State-wide figures. The chart also indicates the timing of State capital and operating subsidy needs assuming the transaction scenario described above.

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2013	116,195	31,971	-	-	-	-
2014	39,548	11,612	-	-	-	-
2015	128,707	101,514	-	-	-	-
2016	104,975	78,577	-	-	-	-
2017	109,745	84,199	-	-	-	-
2018	44,203	19,568	-	-	-	-
2019	44,816	21,153	-	-	-	-
2020	93,037	70,408	-	-	-	-
2021	53,147	31,619	-	-	-	-
2022	52,784	32,425	-	-	-	-

Year	Annual Capital Needs (per CNA)	Capital Subsidy		Operating Subsidy		
		Pre-Transaction Capital Subsidy Needs	Transaction Capital Subsidy Needs	Operating Deficit Subsidy Needs	Base Rent Operating Subsidy Needs	Income Mixing Operating Subsidy Needs
2023	20,481	1,363	-	-	-	-
2024	12,289	-	-	-	-	-
2025	205,461	183,536	-	-	-	-
2026	146,674	131,736	-	-	-	-
2027	119,008	105,625	-	-	-	-
2028	124,201	112,462	-	-	-	-
2029	52,760	41,950	-	803	-	-
2030	143,874	132,632	-	3,062	-	-
2031	17,183	5,491	-	5,436	-	-
2032	15,568	3,408	-	7,928	-	-

Scenario Pro Formas

Fairway Acres, continued

Income and Expense Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
2023 ANNUAL INCOME										
Gross Potential Rent	190,773	6,359.11	236,984	7,899.47	236,984	7,899	236,984	7,899	236,984	7,899
Vacancy/Loss	(4,837)	(161.22)	(4,837)	(161.22)	(11,849)	(395)	(16,589)	(553)	(16,589)	(553)
Other Income	2,914	97.15	2,914	97.15	2,914	97	2,914	97	2,914	97
Effective Gross Income	188,851	6,295.04	235,062	7,835.39	228,049	7,602	223,310	7,444	223,310	7,444
2023 ANNUAL EXPENSES										
Operating Expenses	169,733	5,658	181,486	6,050	177,234	5,908	176,997	5,900	176,997	5,900
Replacement Reserve Deposits	8,543	285	8,543	285	14,945	498	14,945	498	14,945	498
Total Operating Expenses	178,276	5,943	190,029	6,334	192,179	6,406	191,942	6,398	191,942	6,398
2023 NET OPERATING INCOME	10,575	352	45,032	1,501	35,871	1,196	31,368	1,046	31,368	1,046
Debt Service	-	-	-	-	21,100	703	16,388	546	16,379	546
2023 CASH FLOW	10,575	352	45,032	1,501	14,771	492	14,980	499	14,989	500

Sources and Uses Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
SOURCES										
Hard Debt										
Commercial Debt 1	-	-	-	-	367,170	12,239	188,198	6,273	285,021	9,501
Commercial Debt 2	-	-	-	-	-	-	-	-	-	-
Tax-Exempt Bond	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Soft Debt										
Seller Financing/Take Back Note	-	-	-	-	-	-	900,000	30,000	900,000	30,000
State	-	-	-	-	-	-	-	-	-	-
Local	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other										
From Operations	-	-	18,457	615	28,957	965	28,957	965	28,957	965
Cash Escrows	-	-	84,224	2,807	84,224	2,807	84,224	2,807	84,224	2,807
Grant	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Deferred Developer Fee	-	-	-	-	152,195	5,073	159,706	5,324	159,068	5,302
Equity										
GP Contribution	-	-	-	-	-	-	-	-	-	-
LIHTC	-	-	-	-	-	-	970,638	32,355	2,005,461	66,849
Other	-	-	-	-	-	-	-	-	-	-
Total Sources of Funds	-	-	102,681	3,423	632,545	21,085	2,331,722	77,724	3,462,731	115,424
USES										
Acquisition Costs	-	-	-	-	-	-	900,000	30,000	900,000	30,000
Construction Costs	-	-	2,088,642	69,621	2,088,642	69,621	2,111,787	70,393	2,111,787	70,393
Soft Costs - Design & Construction	-	-	235,100	7,837	231,807	7,727	237,298	7,910	237,298	7,910
Soft Costs - Due Diligence	-	-	11,506	384	20,506	684	23,114	770	23,114	770
Soft Costs - Transaction Costs	-	-	38,957	1,299	118,957	3,965	244,106	8,137	244,106	8,137
Soft Costs - Financing	-	-	63,925	2,131	196,890	6,563	224,706	7,490	223,878	7,463
Soft Costs - Other	-	-	17,250	575	19,500	650	19,500	650	19,500	650
Soft Cost Contingency	-	-	18,337	611	29,383	979	33,309	1,110	32,769	1,092
Reserves	-	-	-	-	21,050	702	94,151	3,138	96,646	3,222
Developer Fee	-	-	173,933	5,798	380,487	12,683	399,265	13,309	397,670	13,256
Total Uses of Funds	-	-	2,647,649	88,255	3,107,222	103,574	4,287,236	142,908	4,286,769	142,892
TRANSACTION SURPLUS (GAP)	-	-	(2,544,968)	(84,832)	(2,474,677)	(82,489)	(1,955,514)	(65,184)	(824,037)	(27,468)

Scenario Pro Formas (continued)

Fairway Acres, continued

Coverage of Capital Needs Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
FUNDS										
Transaction Rehab	-	-	1,611,906	53,730	1,611,906	53,730	1,611,906	53,730	1,611,906	53,730
Capital Needs Funded Using Subsidy	1,201,248	40,042	-	-	-	-	-	-	-	-
Existing Replacement Reserve Balance	84,224	2,807	84,224	2,807	84,224	2,807	84,224	2,807	84,224	2,807
Replacement Reserves	359,184	11,973	166,092	5,536	290,548	9,685	290,548	9,685	290,548	9,685
Total Funds	1,644,656	54,822	1,862,222	62,074	1,986,677	66,223	1,986,677	66,223	1,986,677	66,223
USES										
Estimated Capital Needs	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822
Enhancements	-	-	-	-	-	-	-	-	-	-
Total Uses	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822	1,644,656	54,822
YEAR 20 REPLACEMENT RESERVE BALANCE	-	-	217,566	7,252	342,022	11,401	342,022	11,401	342,022	11,401

Subsidy Analysis

	CURRENT		RECOVERABLE GRANT		CHFA/FHA		4% LIHTC		9% LIHTC	
	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit	Total	Per Unit
OPERATING SUBSIDY										
Base Rent Operating Subsidy Needed	n/a	n/a	600,661	20,022	600,661	20,022	600,661	20,022	600,661	20,022
Operating Deficit Subsidy Needed	17,229	574	-	-	0	-	500	17	491	16
Income Mixing Operating Subsidy Needed	n/a	n/a	-	-	-	-	-	-	-	-
Total Operating Subsidy	17,229	574	600,661	20,022	600,661	20,022	601,161	20,039	601,152	20,038
CAPITAL SUBSIDY										
Pre-Transaction Capital Subsidy Needed	1,201,248	40,042	-	-	-	-	-	-	-	-
Recoverable Cash Flow	n/a	n/a	(366,643)	(12,221)	(106,140)	(3,538)	(149,046)	(4,968)	(150,363)	(5,012)
Transaction Capital Subsidy Needed	n/a	n/a	2,544,968	84,832	2,474,677	82,489	1,955,514	65,184	824,037	27,468
Total Capital Subsidy	1,201,248	40,042	2,178,325	72,611	2,368,537	78,951	1,806,468	60,216	673,674	22,456
TOTAL SUBSIDY NEEDED	1,218,477	40,616	2,778,986	92,633	2,969,198	98,973	2,407,628	80,254	1,274,826	42,494